



Attachment 4

Michael C. Schlachter, CFA
Managing Director

May 23, 2007

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Annual Review – Securities Lending

Dear Russell,

You requested Wilshire's opinion regarding Staff's annual review of the Securities Lending program and the associated contract renewals for Metropolitan West and State Street. This program has been extremely lucrative for the total fund over its lifespan, and we recommend renewing both contracts for another year.

CalPERS' Securities Lending program has generated more than \$1 billion in total net income to the PERF over its history (through today) and continues to grow in proportion to the size of the total portfolio. CalPERS Staff have taken a judicious approach to securities lending, focusing on the most profitable securities in the portfolio, and have been able to enter into some unique transactions due to the size of the lendable pool CalPERS has to offer. For example, the move into auction-based programs has allowed CalPERS to maximize its profit from each transaction and avoid pursuing lower yields in the market. We recommend no changes to this program at this time.

Wilshire also recommends renewing the contracts of Metropolitan West and State Street for another year for securities lending services. Staff is quite pleased with the level of service provided by both firms, but retains the authority to de facto terminate either firm if the level of service declines or if there are significant policy violations as Staff can pull assets from either party with 30 day notice.

If you have any additional questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Schlachter', with a long, sweeping horizontal line extending to the right.